

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NO. 2018-318-E

In the Matter of	)	<b>REBUTTAL TESTIMONY OF</b>
	)	<b>KODWO GHARTEY-TAGOE</b>
Application of Duke Energy Progress, LLC for	)	<b>FOR DUKE ENERGY</b>
Adjustments in Electronic Rate Schedules and	)	<b>PROGRESS, LLC</b>
Tariffs	)	

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1 **I. INTRODUCTION AND PURPOSE**

2 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND**  
3 **CURRENT POSITION.**

4 **A.** My name is Kodwo Gharthey-Tagoe, and my business address is 40 West  
5 Broad Street, Greenville, South Carolina 29601. I am State President –  
6 South Carolina for Duke Energy Progress, LLC (“DE Progress” or  
7 “Company”) and Duke Energy Carolinas, LLC (“DE Carolinas”), both of  
8 which are wholly owned subsidiaries of Duke Energy Corporation (“Duke  
9 Energy”).

10 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY AND**  
11 **EXHIBITS IN THIS PROCEEDING?**

12 **A.** Yes.

13 **II. PURPOSE AND SCOPE**

14 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

15 **A.** The purpose of my rebuttal testimony is to provide an overview of the  
16 Company’s rebuttal case.

17 **Q. WHO ARE THE OTHER WITNESSES PROVIDING REBUTTAL**  
18 **TESTIMONY?**

19 **A.** The Company’s other witnesses filing rebuttal testimony in this case are:

- 20 1. **Laura A. Bateman**, Director of Rates & Regulatory Planning,  
21 responds to accounting adjustments, ratemaking adjustments, and  
22 deferred costs proposed by the Office of Regulatory Staff (“ORS”)  
23 ~~as well as proposals from Nucor Steel South Carolina (“Nucor”).~~

- 1           2.     **Kelvin Henderson**, Senior Vice President of Nuclear Operations,  
2                   discusses the ORS's recommendation to remove the Company's  
3                   request to adjust depreciation and amortization expenses to  
4                   establish a reserve for end of life nuclear costs not captured in  
5                   decommissioning studies. Witness Henderson also responds to the  
6                   recommendation to exclude nuclear inventory from the rate base.
- 7           3.     **John Sullivan**, Director of Corporate Finance and Assistant  
8                   Treasurer, responds to ORS's recommendation for the cost of log-  
9                   term debt and the recommendation to lower the Return on Equity  
10                  ("ROE") requested by the Company. ~~Company Witness Sullivan~~  
11                  ~~also addresses Nucor's proposal to reduce the amortization period~~  
12                  ~~of excess deferred income taxes ("EDIT") for the Company's~~  
13                  ~~investments in property, plant and equipment, as well its proposal~~  
14                  ~~regarding the Company's proposed common equity ratio.~~
- 15          4.     **Janice Hager**, President of Janice Hager Consulting, addresses  
16                   intervenor concerns about the use of the minimum system concept  
17                   for allocation of costs in the cost of service study, as well as meter  
18                   costs and uncollectible costs being classified as customer related  
19                   costs.
- 20          5.     **Robert B. Hevert**, Partner of ScottMadden, Inc., responds to the  
21                   ORS's recommendation to reduce the Company's ROE and the  
22                   recommendation to eliminate the return on certain accounting  
23                   deferrals, ~~as well as the recommendations from Nucor.~~

- 1           ~~6. ——— **John Panizza**, Director of Tax Operations, responds to Nucor~~  
2           ~~Witness LaConte’s recommendation that the federal unprotected~~  
3           ~~property-related component of the Company’s proposed excess~~  
4           ~~deferred income tax (“EDIT”) Rider should be modified to return~~  
5           ~~excess deferred taxes more quickly.~~
- 6           7.     **Retha Hunsicker**, Vice President of Customer Connect-Solutions,  
7           addresses ORS Witness Payne’s recommendation to disallow the  
8           projected two year average operating and maintenance (“O&M”)   
9           expenses for the Customer Connect Program.
- 10          8.     **Jon F. Kerin**, Vice President Coal Combustion Products  
11          Operations, Maintenance and Governance, addresses issues related  
12          to the Company’s request to recover its compliance expenses for  
13          managing coal combustion residuals (“CCR”).
- 14          9.     **Dr. Julius (Chip) Wright, Ph.D.**, Managing Partner, J.A. Wright  
15          & Associates, LLC, also addresses issues related to the Company’s  
16          request to recover its compliance expenses for managing CCR and  
17          regulatory policy regarding cost recovery, including deferred costs.
- 18          10.    **Steven B. Wheeler**, Pricing and Regulatory Solutions Director,  
19          details the Company’s proposed increase of the Basic Facilities  
20          Charge, Rate Design Proposal and rate structures, AMI-enabled  
21          rate designs, Excess Deferred Income Tax Rider (“EDIT”), and the  
22          Company’s Real Time Pricing rates.

1 ~~15. — John J. Spanos, President, Gannett Fleming Valuation and Rate~~  
2 ~~Consultants, LLC, responds to portions of Nucor testimony~~  
3 ~~regarding recommendations concerning the depreciation reserve.~~

4 16. Julie K. Turner, Vice President of Carolinas Natural Gas  
5 Generation, responds to the Sierra Club's proposal to disallow  
6 recovery of the Company's investment in Dry Bottom Ash  
7 Systems and the proposal that the commission direct the Company  
8 to perform certain economic analyses.

9 **III. REBUTTAL TESTIMONY**

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S**  
11 **REBUTTAL CASE.**

12 **A.** When I consider the positions taken by the ORS, I'm concerned about the  
13 effect of those positions on the Company's financial condition, which  
14 directly affects our ability to provide safe, clean, reliable electricity to our  
15 customers. There are many contradictions in the ORS case which concern  
16 me. I explain some of those contradictions in my rebuttal and other  
17 Company witnesses address them as well in their rebuttal. For example,  
18 ORS Witness Dan Witliff departs from the historic practice of allocating  
19 costs between South Carolina and North Carolina given our dual state  
20 structure. Historically, all of the Company's generation costs have been  
21 allocated between the two states, as well as fuel costs and associated costs.  
22 Now, the ORS proposes to disallow certain environmental compliance costs  
23 due to the ORS's view of a North Carolina law. This is a concerning

1 are in the Basic Facilities Charge are not included in the variable rate  
2 component of the rate schedule. Parties seem to assume the change in the  
3 Basic Facilities Charge is additive—it is not. Moreover, this charge ensures  
4 that other customers are not subsidizing low usage customers, such as  
5 customers with vacation or second homes. Recovery of all customer related  
6 costs through the Basic Facilities Charge reduces bills from what they  
7 would otherwise be in very hot summer months and very cold winter  
8 months. Nonetheless, as Company Witness Wheeler explains, if the change  
9 is considered too much at one time, we have proposed an alternate approach  
10 with a more gradual increase to the Basic Facilities Charge and to reinstate  
11 the remaining costs back into the variable component as proposed by  
12 Company Witness Pirro.

13 ~~Finally, an issue of great concern for me is Nucor's position and~~  
14 ~~recommendation on the amortization of theoretical reserve estimated in the~~  
15 ~~depreciation study, as well as its recommendation to shorten the~~  
16 ~~amortization period for the property related to the unprotected EDIT from~~  
17 ~~20 years to 5 years. We believe that the Company's approach and~~  
18 ~~recommendations for theoretical reserve imbalance and a longer~~  
19 ~~amortization period for the Company's property, plant, and equipment~~  
20 ~~("PP&E") relies on traditional and proven methods which will provide~~  
21 ~~greater long term benefits for our customers.~~

1 utilities, its ROE proposal is generally in line with authorized ROEs  
2 determined by other regulatory commissions, and that the ORS proposal is  
3 significantly lower than those authorized ROEs. This is particularly true  
4 with respect to other vertically integrated electric utilities in the  
5 Southeastern United States, as Witness Sullivan notes. To put the Company  
6 at a disadvantage vis-à-vis its competitors would be a disservice to  
7 customers, and will only cause the cost of capital, particularly equity capital,  
8 to rise in the future as rating agencies and equity analysts reconsider  
9 whether to continue recognizing South Carolina as a jurisdiction with  
10 constructive and credit supportive regulation. ~~Similarly, Company Witness~~  
11 ~~Sullivan addresses Nucor Witness LaConte's recommendation that the~~  
12 ~~Commission consider reducing the Company's proposed 53 percent equity~~  
13 ~~ratio on the basis that it is above industry average. This is not accurate, as~~  
14 ~~a number of the utilities included in Witness LaConte's testimony are~~  
15 ~~publicly traded utility holding companies that are not subject to regulated~~  
16 ~~capital structures, therefore are not comparable to the Company. Further,~~  
17 ~~Witness LaConte's recommendation is not based upon actual regulatory~~  
18 ~~capital structures, and is therefore misleading.~~

19 **Q. DOES THE COMPANY DISAGREE WITH OTHER**  
20 **DISALLOWANCE RECOMMENDATIONS MADE BY ORS?**

21 **A.** Yes. Another ORS proposal that the Company would like to address is the  
22 ORS's disallowance of the costs to participate in local organizations in the  
23 communities that we serve. Organizations like chambers of commerce,

1           \$19.03 while shifting the other revenue requirement to the variable  
2           component in a manner consistent with that proposed by ORS.

3   **Q. PLEASE EXPLAIN WHY THE COMPANY'S WITNESSES ARE**  
4   **NOT ADDRESSING THE GRID IMPROVEMENT PLAN IN THEIR**  
5   **REBUTTAL TESTIMONIES.**

6   **A.**   The Company has reached an agreement with the ORS to establish a new  
7           and separate docket to review and examine the Grid Improvement Plan for  
8           both: Duke Energy Progress and Duke Energy Carolinas, and no party has  
9           objected to that agreement. We are withdrawing the Grid Improvement  
10          Plan and the treatment of costs incurred from January 1, 2019 from this  
11          docket pursuant to the Commission's March 13, 2019 Directive in this  
12          Docket.

13 ~~**Q. PLEASE DESCRIBE THE COMPANY'S REACTION TO NUCOR'S**~~  
14 ~~**RECOMMENDATIONS PERTAINING TO THEORETICAL**~~  
15 ~~**DEPRECIATION RESERVE AND THE IMPLEMENTATION OF**~~  
16 ~~**THE TAX CUTS AND JOBS ACT.**~~

17 ~~**A. As explained by Company Witness Spanos, Nucor Witness Pollock's**~~  
18 ~~**position and recommendation to amortize the depreciation reserve estimated**~~  
19 ~~**in the depreciation study over a 10-year period is in opposition to our**~~  
20 ~~**traditional proposal to use the remaining life technique. We believe that**~~  
21 ~~**Nucor's suggested approach will not result in an equitable distribution of**~~  
22 ~~**depreciation charges over the remaining lives of the Company's assets and**~~  
23 ~~**will produce artificially low depreciation expenses and rates in the near term**~~



1       ~~and high depreciation expenses and rates for customer in the future, as~~  
2       ~~explained by Company Witness Spanos.~~

3               ~~Also, Company Witnesses Bateman and Sullivan describe that our~~  
4       ~~proposal regarding implementation of the Tax Cuts & Jobs Act (“Tax Act”)~~  
5       ~~is reasonable. We believe the application of the Tax Act to DERP balances~~  
6       ~~are reasonable, and that we have proposed an appropriate length of time for~~  
7       ~~returning deferred reserved and unprotected EDIT. DE Progress agrees that~~  
8       ~~customers should and will benefit from the overall reduction in revenue~~  
9       ~~requirement, but we do not believe that Nucor’s recommendation accounts~~  
10       ~~for other impacts of the Tax Act as it relates to cash flow. Company Witness~~  
11       ~~Sullivan points out that reducing the Company’s cash flow through a more~~  
12       ~~accelerated flowback of unprotected EDIT, at the same time DE Progress is~~  
13       ~~investing in large capital projects and faced with large refinancing~~  
14       ~~obligations, will negatively impact its credit metrics, which should be taken~~  
15       ~~into account.~~

16   **Q.       DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17   **A.       Yes.**